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New North Resources Ltd.

2001 Annual Report

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of New North Resources Ltd. will be held at the Calgary Petroleum Club, in the President's Room, on Thursday, the 30th day of May, 2002 at 4:00 p.m. (local time).

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Abbreviations

Bbl	barrels
Bpd	barrels per day
Mcf	thousand cubic feet
Mcfpd	thousand cubic feet per day
NGL	natural gas liquids
BOE	barrel of oil equivalent (10:1)
BOEpd	barrel of oil equivalent per day (10:1)

All sums of money are expressed in Canadian dollars.

CORPORATE PROFILE

New North Resources Ltd. (“New North” or the “Company”) is a Calgary based junior oil and natural gas corporation, engaged in the exploration, development, acquisition and production of natural gas and medium to light gravity crude oil reserves in Alberta.

New North’s common shares trade on the TSX Venture Exchange under the symbol NNT.

The Company’s primary corporate objective is to achieve non-dilutive growth and enhance shareholder value through internal prospect development, strategic production acquisitions and prudent financial management.

CORPORATE HIGHLIGHTS

The following table provides comparative results for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>	<u>% Change</u>	
Revenue (net of royalties)	1,165,294	560,572	+108	
Cash flow	744,818	405,651	+84	
Cash flow per share (basic)	0.10	0.06	+67	
Cash flow per share (diluted)	0.10	0.06	+67	
Net earnings	207,472	179,426	+16	
Net earnings per share (basic)	0.03	0.03	-	
Net earnings per share (diluted)	0.03	0.03	-	
Capital expenditures	1,457,716	947,947	+54	
Bank loan (net of working capital)	432,744	78,052	+454	
Shareholders' equity	1,285,347	924,259	+39	
Production				
Oil and NGL	Total Bbl	9,694	7,123	+36
	Per day	27	20	+36
	Average price \$	36.20	41.08	-12
Natural gas	Total Mcf	192,692	58,643	+229
	Per day	528	161	+229
	Average price \$	5.66	6.30	-10
BOE (10:1)	Total BOE	28,963	12,987	+123
	Per day	79	36	+123
	Average price \$	49.76	50.98	-2
Shares traded	727,700	432,260	+68	
Value traded \$	185,950	87,566	+112	
Share price \$				
High	0.50	0.40	+25	
Low	0.14	0.10	+40	
Close	0.27	0.20	+35	
Issued and outstanding (12/31)	8,325,000	7,325,000	+14	
Weighted average outstanding	7,645,830	6,276,913	+22	

The following table provides comparative results for the three months ended December 31, 2001 and 2000:

	<u>Q4 2001</u>	<u>Q4 2000</u>	<u>% Change</u>
Revenue (net of royalties)	201,055	286,852	-30
Cash flow	70,694	235,356	-70
Cash flow per share (basic)	0.01	0.03	-67
Cash flow per share (diluted)	0.01	0.03	-67
Net earnings	28,563	39,266	-27
Net earnings per share (basic)	-	0.01	-
Net earnings per share (diluted)	-	0.01	-
Capital expenditures	150,156	438,022	-66
Bank loan (net of working capital)	432,744	78,052	+454
Shareholders' equity	1,285,347	924,259	+39
Production			
Oil and NGL			
Total Bbl	3,246	2,169	+50
Per day	35	24	+50
Average price \$	27.16	44.74	-39
Natural gas			
Total Mcf	48,834	26,208	+86
Per day	531	285	+86
Average price \$	3.19	8.91	-64
BOE (10:1)			
Total BOE	8,129	4,790	+70
Per day	88	52	+70
Average price \$	30.01	63.12	-52

Note: The September 30, 2001 interim financial statements have been restated. Operating cash flow of \$112,920 which had accrued on acquired properties during the period from the effective date to the closing date was initially included in reported cash flow from operations and net earnings. This amount has now been reflected as a decrease in the purchase price of the properties. The change was made to comply with CICA Abstract EIC-119 issued in May 2001.

PRESIDENT'S MESSAGE

New North is pleased to announce financial and operating results for the year ended December 31, 2001.

In 2001, the Company's revenues (net of royalties) increased to \$1,165,294 from \$560,572 in the prior year, an increase of 108%. Cash flow from operations for the year increased by 84% to \$744,818 (\$0.10/share) as compared to \$405,651 (\$0.06/share) in 2000. Earnings for the year increased by 16% to \$207,472 (\$0.03/share) as compared to \$179,426 (\$0.03/share) in 2000.

For the three months ended December 31, 2001 revenues were \$201,055, a decrease of 30% over the same period in 2000. Cash flow from operations in the fourth quarter of 2001 was \$70,694 (\$0.01/share) a decrease of 70% over 2000.

The Company produced an average of 79 BOE (10:1) per day during the year as compared to 36 BOE per day in 2000, an increase of 123%. Production in 2001 was comprised of 27 barrels of oil and natural gas liquids per day and 528 mcf of natural gas per day.

New North exited the year with production of 90 BOE per day (10:1) comprised of 40 barrels of oil and natural gas liquids per day, and 500 mcf of natural gas per day, as compared to 65 BOE per day at December 31, 2000. The 2001 exit rate represents an increase of 38% over the exit rate for 2000.

As of the date of this report, New North's production is approximately 130 BOE per day comprised of 52 barrels of oil and NGL per day and 760 mcf of natural gas per day.

Capital expenditures for the year totalled \$1,457,716:

Acquisition of producing properties	\$ 796,666
Land purchases	68,232
Seismic	87,723
Drilling, completion and tie in	<u>505,095</u>
Total	<u>\$1,457,716</u>

In September and October 2001 New North sold by way of private placement 873,000 flow through common shares at \$0.35/share for gross proceeds of \$305,500.

The Company ended the year with a working capital surplus of \$36,805 and bank debt of \$469,549 for net debt of \$432,744.

Operations Update

On January 7, 2002 New North acquired an additional 20% working interest in two wells in the Sundre Basal Mannville gas pool and various other interests for approximately \$1.12 million. This acquisition has increased New North's interest in the pool to 34.375%. The increase in working interest in these two wells has raised New North's production by 250 Mcf/day of natural gas and 15 Bbl/day of NGL's. As a result of this acquisition, New North has taken over as operator of the two wells.

In the first quarter of 2002, New North participated at a 11.67% working interest in a recompletion of a third well in the Sundre Basal Mannville gas pool. The well is expected to be fractured and tested after spring breakup.

In the Rumsey area of Alberta, New North expects to drill two wells targeting Belly River Gas in the second quarter of 2002. The first location has been surveyed on the crown land acquired by the Company in the fourth quarter of 2001. The second location is a farmin and terms are currently being finalized. New North's interest in each well will be 40% BPO and 45% APO.

I would like to thank the Directors of New North Resources Ltd., as well as the consultants and associates, who have contributed to the success and growth of New North over the past year.

On behalf of the Board of Directors,



Hugh M. Thomson
President
April 16, 2002

RESERVE ANALYSIS

New North's reserve report evaluates all of its proved developed producing properties held as at January 7, 2002, in order to reflect New North's acquisition of additional working interests in the Sundre area, which closed on January 7, 2002. At January 7, 2002 the Company's estimated proved developed producing reserves were 380,900 BOE. The reserves are comprised of 52% natural gas and 48% oil and NGL's. The present value of the reserves, before tax, at a 10% discount rate is \$4,203,000. The estimated reserve value is based on 2002 prices of \$29.54 for oil, \$25.79 for NGL's and \$4.31 per Mcf for natural gas.

Finding and development costs for the period from January 1, 2001 to January 7, 2002 were calculated as follows:

2001 capital asset additions (net)	\$1,363,071
January 7, 2002 acquisition	<u>1,120,000</u>
Total capital asset additions	<u>\$2,483,071</u>
Reserve additions (BOE)	
January 1 – December 31, 2001	99,170
January 7, 2002	<u>148,780</u>
Total reserve additions	<u>247,950</u>
F&D costs/BOE (10:1)	\$ <u>10.01</u>

ESTIMATED RESERVES AND PRESENT WORTH VALUE Proved Developed Producing (Based on Escalated Pricing) (Before Royalty)

	Gross Reserves			BOE	Present Worth Value Before Tax Discounted		
	Oil	Natural Gas Liquids	Natural Gas		0% \$ (000)	10% \$ (000)	15% \$ (000)
	<u>MBbl</u>	<u>MBbl</u>	<u>MMcf</u>	<u>MBOE</u>			
Estimated Reserves January 1, 2001	106.1	24.6	688.0	199.5			
Production for year	(6.6)	(3.1)	(192.6)	(29.0)			
Revisions to opening reserves	(41.0)	0.1	33.0	(37.6)			
Reserve additions for year	14.2	29.2	557.7	99.2			
Estimated reserves December 31, 2001	72.7	50.8	1,086.1	232.1			
January 7, 2002 acquisition	2.4	57.9	884.8	148.8			
Estimated reserves January 7, 2002	75.1	108.7	1,970.9	380.9	7,499	4,203	3,460

Notes:

- (i) The estimated reserves and present worth value report was prepared internally by a professional engineer.
- (ii) The report evaluates only the proved developed producing properties of New North as at January 7, 2002.
- (iii) The pricing forecast used in the report is the January 1, 2002 forecast used by McDaniels & Associates.
- (iv) The January 7, 2002 reserve report includes reserves acquired in the Sundre area for \$1.12 million effective January 7, 2002.
- (v) Present worth value figures do not include ARTC and are before abandonment and site restoration.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis should be read in conjunction with the consolidated financial statements. The analysis compares results for the years ended December 31, 2001 and 2000.

Revenues

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
Gross Revenues	1,441,216	662,353	+117%
Average Gas Price (\$/Mcf)	5.66	6.30	-10%
Average Oil & NGL Price (\$/Bbl)	36.20	41.08	-12%

The increase in gross revenues is attributable to a 229% increase in average daily natural gas production volumes from 161 Mcf/day in 2000 to 528 Mcf/day in 2001.

Royalties

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
Gross Royalties	360,620	137,133	+163%
Alberta Royalty Tax Credit	65,182	32,284	+102%
Net Royalties	295,438	104,849	+182%

Royalties as a percentage of gross revenues were 25% in 2001 as compared to 21% in 2000. This royalty percentage increase is due to higher royalty rates on the new natural gas production.

Production Expenses

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
Production Expense	210,820	59,180	+256%
Production Expense per BOE	\$7.28	\$4.56	+60%

The increase in production expense per BOE is mainly attributable to third party gas processing fees on the new natural gas production.

Operating Netbacks per BOE

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
Sales Price (\$/BOE)	49.76	50.98	-2%
Royalties (net of ARTC)	10.20	8.07	+26%
Production Expenses	7.28	4.56	+60%
Operating Netback	32.28	38.37	-16%

Operating netbacks decreased by 16% due to higher royalty rates and production expenses on the new natural gas production.

General & Administrative Costs

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
General & Administrative Costs	180,380	87,487	+106%
General & Administrative Costs per BOE	\$6.23	\$6.73	-7%

The increase in general and administrative costs is due to the overall growth in activities and operations. However, general and administrative costs per BOE have decreased by 7% as a result of a gross production increase of 123%.

Depletion and Depreciation

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
Depletion and depreciation	369,797	101,628	+264%
Depletion and depreciation per BOE	\$12.77	\$7.82	+63%

The depletion and depreciation expense has increased due to an increase in gross production volumes and a larger capital asset base. The increase in depletion and depreciation per BOE is attributable to higher finding and acquisition costs for new reserves.

Cash Flow from Operations

The cash flow increase of 84% over the year ended December 31, 2000 is mainly due to a 229% increase in natural gas production volumes, and a 36% increase in oil and NGL production volumes.

Liquidity and Capital Resources

The Company finances its operations from a combination of cash flow, share issuance, and bank loans. In 2001 New North had cash flow from operations of \$744,818, issued share capital for net proceeds of \$338,940, and increased its bank loan by \$140,169. The Company has a \$2,100,000 bank line of credit of which approximately \$1,600,000 was drawn following the \$1.12 million acquisition on January 7, 2002.

Pending Accounting Change

The CICA has recently issued Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The new standard requires the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. The Company is required to adopt this new standard on January 1, 2002 and apply it to stock-based payments granted on or after the date of adoption. As the Company occasionally uses stock based payments in exchange for consulting services, the adoption of this standard could result in future charges to operations.

MANAGEMENT REPORT

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

The Company maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Hugh M. Thomson
President and
Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of New North Resources Ltd. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 3, 2002

NEW NORTH RESOURCES LTD.

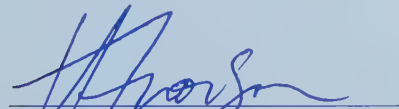
Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Accounts receivable	\$ 356,300	\$ 431,384
Prepaid expenses	22,580	7,084
	378,880	438,468
Capital assets (note 3)	2,589,834	1,577,240
	\$ 2,968,714	\$ 2,015,708
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 342,075	\$ 187,140
Site restoration	19,609	16,200
Bank loan (note 4)	469,549	329,380
Future income taxes (note 6)	852,134	558,729
Shareholders' equity:		
Common shares (note 5)	781,837	583,811
Retained earnings	503,510	340,448
	1,285,347	924,259
	\$ 2,968,714	\$ 2,015,708

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Hugh M. Thomson

Director



J. Norman Blair

Director

NEW NORTH RESOURCES LTD.

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Petroleum and natural gas	\$ 1,441,216	\$ 662,353
Royalties	(360,620)	(137,133)
Alberta royalty tax credit	68,593	32,284
	1,149,189	557,504
Other income	16,105	3,068
	1,165,294	560,572
Expenses:		
Operating	210,820	59,180
General and administrative	180,380	87,487
Interest	29,276	8,254
Depletion and depreciation	369,797	101,628
	790,273	256,549
Net earnings before income taxes	375,021	304,023
Future income taxes (note 6)	167,549	124,597
Net earnings	207,472	179,426
Retained earnings, beginning of year	340,448	143,824
Change in accounting policy (note 6)	-	17,198
Share repurchase adjustment	(44,410)	-
Retained earnings, end of year	\$ 503,510	\$ 340,448
Net earnings per share:		
Basic and diluted earnings per share	\$ 0.03	\$ 0.03

See accompanying notes to consolidated financial statements.

NEW NORTH RESOURCES LTD.
Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net earnings	\$ 181,562	\$ 179,426
Items not involving cash:		
Depletion and site restoration	369,797	101,628
Future income taxes	193,459	124,597
Funds generated from operations	744,818	405,651
Change in non-cash working capital (note 7)	214,523	(241,379)
Site restoration expenditures	(15,911)	-
	943,430	164,272
Financing:		
Increase in bank loan	140,169	329,380
Payments to related company	-	(25,080)
Shares issued, net of issue costs	338,940	287,353
Shares repurchased	(59,468)	-
	419,641	591,653
Investment:		
Additions to property, plant and equipment	(1,457,716)	(610,947)
Proceeds on sale of property	94,645	-
Acquisition (note 2)	-	(337,000)
	(1,363,071)	(947,947)
Change in cash	-	(192,022)
Cash, beginning of year	-	192,022
Cash end of year	\$ -	\$ -
Cash flow per share:		
Basic and diluted cash flow per share	\$ 0.10	\$ 0.06

See accompanying notes to consolidated financial statements.

Years ended December 31, 2001 and 2000

New North Resources Ltd. (the "Company") was incorporated in May 1994 and commenced operations in September 1994. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Alberta.

1. Significant accounting policies:

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

(a) Joint interest operations:

A significant portion of the acquisition, exploration, development and production activities are conducted with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, plant and production equipment costs and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted by the unit of production method based on estimated gross proven reserves. Natural gas sales and reserves are converted to equivalent units of petroleum using their relative energy content.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The total capitalized costs less accumulated depletion and depreciation, future site restoration and future income taxes, are limited to an amount equal to the estimated future net revenue from production of proven reserves, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, future site restoration and taxes.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

(c) Future site restoration costs:

Estimated future site restoration costs are provided for using the unit-of-production method based on estimated gross proven reserves. Costs are based on the Company's engineering estimates considering current regulations, costs technology and industry standards. Actual expenditures incurred are applied against the accumulated site restoration provision.

(d) Income taxes:

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized to the extent that assets and liabilities are recorded in the accounts at amounts different from their tax basis.

(e) Flow-through shares:

The deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Share capital is reduced by and future income taxes is increased by an estimated tax cost of the deductions renounced to shareholders.

(f) Per share amounts:

Basic earnings per common share and cash flow from operations per common shares are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(g) Stock-based compensation plans:

The Company has one stock-based compensation plan. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees upon exercise of stock options is recorded as share capital.

2. Acquisition:

Effective July 1, 2000 the Company acquired all of the issued and outstanding common shares of a private Alberta company for cash consideration of \$337,000. The acquisition was accounted for using the purchase method with the results of operations being included from the effective date.

Capital assets	\$	550,512
Future tax liability		(213,512)
	\$	337,000

3. Capital assets:

	2001	2000
Petroleum and natural gas properties and equipment	\$ 3,567,534	\$ 1,982,286
Less: accumulated depletion and depreciation	(977,700)	(405,046)
	\$ 2,589,834	\$ 1,577,240

As at December 31, 2001 the estimated future site restoration costs to be accrued over the remaining proven reserves totaled approximately \$80,700 (2000 - \$81,000).

During the year ended December 31, 2001 overhead directly related to acquisition, development and exploration activities in the amount of approximately \$60,000 (2000 - \$30,000) was capitalized to petroleum and natural gas properties.

At December 31, 2001 capital assets included \$90,000 (2000 – NIL) relating to unproven property costs that have been excluded from depletion and amortization calculation.

4. Bank loan:

In November 2001 the Company established a \$2,100,000 revolving line of credit facility with a financial institution, bearing interest at a rate of prime plus 1.25% and secured under a general security agreement covering certain petroleum and natural gas properties and equipment and floating charge debenture. The facility is due on demand. At December 31, 2001 the Company had drawn \$469,549 of the facility. The lender has advised, subject to continued adherence to the terms and conditions of the facility, they have no intention to demand repayment of any principal prior to January 1, 2003; therefore, the entire balance as at December 31, 2001 has been classified as a long term liability.

5. Share capital:

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued:

	Number of Shares	Amount
Balance, December 31, 1999	5,925,000	509,246
Flow-through shares for cash (net of issue costs of \$3,647) ⁽ⁱ⁾	1,400,000	304,353
Tax effect on flow-through shares	–	(212,788)
Share purchase loan	–	(17,000)
Balance, December 31, 2000	7,325,000	\$ 583,811

Exercise of stock options	340,000	51,000
Flow-through shares for cash (net of issue costs of \$10,110) ⁽ⁱ⁾	873,000	295,440
Tax effect on flow-through shares	—	(125,856)
Share purchase loan	—	(7,500)
Shares repurchased and cancelled	(213,000)	(59,468)
Share repurchase adjustment		44,410
Balance, December 31, 2001	8,325,000	\$ 781,837

(i) includes 100,000 shares issued to officers and directors for cash proceeds of \$35,000 (2000 – 690,000 shares for \$134,800).

(c) Flow-through shares:

During 2000 the Company issued 1,400,000 flow-through shares. The Company was committed to spend \$308,000 by December 31, 2001 relating to the flow-through shares. During 2001 the Company incurred the required \$308,000 in expenditures.

During 2001 the Company issued 873,000 flow-through shares. The Company is committed to spend \$305,550 by December 31, 2002 relating to the flow-through shares.

(d) Share options:

The Company has a share option plan for its directors, officers, employees and consultants in which up to 10% of the issued outstanding shares are reserved for issuance. A summary of the status of the share option plan as of December 31, 2001 and 2000, and changes during the years then ended is presented below:

	2001		2000	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	640,000	\$ 0.16	-	\$ -
Granted	365,000	0.22	665,000	0.16
Exercised	(340,000)	0.15	-	-
Cancelled	-	-	(25,000)	(0.15)
Outstanding and exercisable at end of year	665,000	\$ 0.20	640,000	\$ 0.16

The options outstanding at December 31, 2001 are exercisable at prices ranging from \$0.15 to \$0.22 per share and have a remaining contractual life of 3.85 years. Subsequent to December 31, 2001, 100,000 common share purchase options were granted at \$0.25 per share to directors, officers and employees.

(e) Share purchase loan:

A loan receivable of \$36,500 is due from an officer and director for the purchase of flow-through shares. The loan is non-interest bearing and is secured by 270,000 common shares.

(f) Shares repurchased and cancelled:

The Company has established a normal course issuer bid that will enable the Company to repurchase up to 366,250 of its issued and outstanding common shares on the open market through the facilities of the TSX Venture Exchange. Shares acquired under the bid will be cancelled and the bid will terminate on March 29, 2002. During the year ended December 31, 2001, the Company repurchased and cancelled 213,000 common shares at a cost of \$59,468. The excess of the cost of the shares over their assigned value was allocated to retained earnings.

(g) Per share amounts:

The weighted average number of shares outstanding during the year was 7,645,830 (2000 – 6,276,913). In computing diluted earnings per share and cash flow from operations per share, 144,421 shares (2000 – 133,463) were added to the weighted average number of common shares outstanding during the year for the dilutive effect of stock options.

6. Income taxes:

Effective January 2000 the Company adopted the liability method of accounting for future income taxes. Prior to adoption of this new accounting standard, the deferral method was used in accounting for income taxes. The new policy has been applied retroactively, without restating the financial statements of any prior periods. As a result, the Company recorded an increase in retained earnings at January 1, 2000 of \$17,198 with a corresponding decrease to the future tax liability.

The differences between the expected income tax provision based on the combined federal and provincial statutory income tax rate of approximately 42.6% (2000 – 44%) and the amount actually provided are as follows:

	2001	2000
Expected income taxes	\$ 159,759	\$ 133,770
Non-deductible crown payments	138,915	47,350
Alberta royalty tax credit	(29,221)	(14,205)
Resource allowance	(92,754)	(46,332)
Provincial tax rate reduction	(25,910)	-
Other	16,760	4,014
	\$ 167,549	\$ 124,597

At December 31, 2001 the Company has resource tax pools of \$682,000 (2000 - \$372,000), after flow-through share renunciations, and share issue costs of \$8,088 (2000 - \$7,000) available to apply against future years' taxable income.

The components of the future income tax liability at December 31, 2001 and 2000 are as follows:

	2001	2000
Future income tax assets:		
Future site restoration	\$ 8,355	\$ 5,346
Share issue expenses	3,445	3,080
Tax losses	-	2,873
	11,800	11,299
Future income tax liabilities:		
Petroleum and natural gas properties	863,934	570,028
Net future income tax liability	\$ 852,134	\$ 558,729

7. Change in non-cash working capital:

	2001	2000
Accounts receivable	\$ 75,084	\$ (398,431)
Prepaid expenses	(15,496)	(2,835)
Accounts payable	154,935	159,887
	\$ 214,523	\$ (241,379)

8. Commitments:

The Company has future operating lease obligations on office premises in the aggregate amount of \$80,557. The minimum lease payments over the next five years are as follows:

2002	\$37,180
2003	37,180
2004	6,197

9. Financial instruments:

(a) Interest rate risk:

The Company is exposed to interest rate fluctuations on its bank line of credit.

(b) Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(c) Credit risk:

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

(d) Fair value of financial instruments:

The carrying amounts of financial instruments included in the consolidated balance sheet approximate their fair value due to their short term maturity.

10. Related party transactions:

Effective January 1, 2000 the Company entered into a service agreement with a corporation controlled by an officer to provide administrative, accounting and secretarial services. During 2001 the Company paid \$81,000 (2000 - \$72,000) for these services.

The Company had its reserve evaluation prepared by a member of the board of directors. The Company paid \$4,000 (2000 - \$4,000) for this evaluation.

A corporation controlled by a director participated in certain farmout, participation joint venture and other similar agreements with the Company.

11. Subsequent event:

On January 7, 2002 the Company acquired certain oil and natural gas properties for \$1,120,000. The acquisition was funded by bank borrowings.

CORPORATE INFORMATION

Directors

Hugh M. Thomson,
Calgary, Alberta (1)

J. Norman Blair,
Canmore, Alberta (1)

Brian A. Fyke,
Calgary, Alberta (1)

(1) Audit Committee

Officers

Hugh M. Thomson,
President & Chief Executive Officer
and Corporate Secretary

Leigh D. Stewart
Assistant Corporate Secretary

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Stock Exchange Listing

TSX Venture Exchange
TSX Trading Symbol: NNT

